



RENTAL ASSISTANCE DEMONSTRATION

RAD Spotlight on Ilion, New York

U.S. Department of Housing and Urban Development

Secretary Julián Castro

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A Small PHA Leverages Private Financing

The Ilion Housing Authority, in upstate New York, recently converted all 158 of its public housing units to long-term project-based vouchers (PBVs) under RAD. At the time of application to RAD, the agency estimated its immediate capital needs of just \$3,000 per unit, which it felt it could meet with existing operating reserves and unobligated Capital Fund proceeds. Consequently, its primary objectives in converting to RAD were to move to a more stable funding platform, one that would allow for a system of replacement reserve funding to pay for property needs as they accrue, and to simplify the agency's regulatory and operating environment. But, after award, as required under RAD, the agency commissioned a third-party physical needs assessment (PNA) that showed capital needs much greater than anticipated. These higher needs caused a shift in the agency's financing strategy.



"Initially, we were hoping to convert without any debt. But once the PNA came back, we knew we needed to obtain a first mortgage to finance some of these repairs," said Jeffrey McTiernan, Executive Director.

Ultimately, the total development budget (hard and soft costs) for these 158 units was \$3 million, or approximately \$19,000 per unit. The PHA funded about half of these costs with existing public housing funds and raised the balance in first mortgage proceeds, supported by RAD rents.

Although Ilion had no prior experience in financing affordable housing (it does not own other non-public housing and it has never participated in the HOPE VI or mixed-financing public housing programs), it was able to work with a local lender to secure favorable terms. "At first, we were concerned that things would be too complicated. But it was really not much different than taking out a loan on your own home," said McTiernan.

In-place Rehab: The agency's public housing includes three sites—London Towers, a 108-unit elderly hi-rise, Remington Park, a 32-unit family site, and Ilion Heights, a 20-unit complex. Work includes energy conservation measures, accessibility improvements, site-work and bathroom renovations (tubs, flooring, cabinets, and low-flow shower heads and aerators). Each family unit will have new awnings that will provide much better protection from rain and snow. The elderly hi-rise will have a new entrance awning that will provide residents with seating



What is RAD?

The **Rental Assistance Demonstration (RAD)** allows public housing agencies (PHAs) and owners of HUD-assisted properties to convert units to project-based Section 8 programs, providing an opportunity to invest billions into properties at risk of being lost from the nation's affordable housing inventory. The first component of the program allows properties funded under the Public Housing program and Section 8 Mod Rehab to convert their assistance to long-term, project-based Section 8 contracts. The second component of RAD allows owners of projects funded under HUD's legacy programs (Rental Supplement, Rental Assistance Payment, and Moderate Rehabilitation) to convert units to Section 8 project-based vouchers.

The 1.1 million units in the Public Housing program have a documented capital needs backlog of nearly \$26 billion. As a result, the public housing inventory has been losing an average of 10,000 units annually through demolitions and dispositions. Meanwhile, the 38,000 units assisted under HUD's legacy programs are ineligible to renew their contracts on terms that favor modernization and long-term preservation. The current conditions of many of these properties inhibit investment and recapitalization efforts in the communities with the most need. By drawing on an established industry of lenders, owners, and stakeholders, RAD allows PHAs and owners of HUD-assisted housing to preserve affordable housing units which would otherwise be subject to vouchers and demolition. RAD creates greater funding certainty while allowing increased operational flexibility to empower PHAs and owners to serve their communities.

As of August 2014, 58 RAD applications have closed, covering some 5,123 units and representing over \$150 million in new investment. PHAs have submitted over 1,000 applications covering close to 185,000 units. RAD's initial statutory authority set a cap of 60,000 units of public housing and Mod Rehab housing that could seek to convert under RAD's first component. PHA demand exceeds RAD's current authority and HUD has requested that Congress lift the cap on eligible units to allow more PHAs to participate in the program.

and protection from the weather, providing better comfort to residents as they wait for rides to various appointments. The hi-rise will also have modernized elevators and a new community room. Both complexes will have new parking lots and many new sidewalks. Importantly, because of the nature and sequencing of the work, the agency expects to avoid the need for any tenant relocation.

Replacement Reserve Funding: As part of its financing plan, the agency established an initial deposit for replacement reserves of about \$5,400 per unit and will set-aside almost \$1,000 per unit annually in replacement reserves, for a total of around \$25,000 per unit over 20 years in replacement reserve funding. Creating a system to fund future replacements was essential to the agency's plans to preserve these units long-term. "Because of the variability of congressional appropriations for public housing, it's very difficult for a public housing agency to conduct and carry out long-term capital planning. As such, we've always had to "patch" when what we really needed to do was "replace," which, of course, also increases our operating costs. But under RAD, we were finally able to catch-up, and now we expect to keep-up."

Ownership and Control: Because of the strong background of the agency and the authority's modest debt service payments relative to the net operating income, the lender did not require that the PHA create a new single-purpose entity, such as a non-profit subsidiary of the PHA, to own the project. Consequently, the Ilion Housing Authority will continue to own and operate the units post-conversion.

Why RAD? "The ability to leverage our assets to obtain private financing has provided us with a wonderful opportunity to really jumpstart many capital projects that would have taken us years to complete using the Capital Fund Program. This has allowed us to really put our focus back on our primary core skill, property management. We have a huge demand for affordable housing in our community. We're thrilled that we've been able to upgrade a tired asset and put it on solid financial footing for the future," says McTiernan.

Financial Impact:

Operating Pro-forma		
Revenue	Total	PUM
RAD Rents	\$1,027,548	\$542
Vacancy Loss	\$14,386	\$8
Other Income	\$99,239	\$52
Effective Gross Income	\$1,112,401	\$587
Expenses		
Administrative	\$141,902	\$75
Tenant Services	\$5,005	\$3
Utility Expense	\$121,250	\$64
Ordinary Maintenance	\$342,790	\$181
Protective Services	\$1,178	\$1
Real Estate Taxes	\$40,000	\$21
Property Insurance	\$17,470	\$9
Liability Insurance	\$8,280	\$4
Other General Expenses	\$10,250	\$5
Total Operating Expenses	\$688,125	\$363
Replacement Reserve Deposit	\$151,000	\$80
Net Operating Income	\$273,276	\$144
First Mortgage Debt Service	\$125,405	\$66
Operating Cash Flow	\$147,871	\$78

Development Budget	Total	Per Unit
Sources		
Operating Reserves	\$579,968	\$3,742
Capital Funds	\$290,000	\$1,835
Flood Insurance Proceeds	\$392,000	\$2,481
Deferred Developer Fee	\$130,000	\$823
Operating Cash	\$309,802	\$1,961
First Mortgage Loan	\$1,300,000	\$8,228
Total Sources	\$3,001,770	\$18,999
Uses		
Construction Costs	\$1,385,758	\$8,940
Relocation Contingency	\$24,000	\$152
Professional Fees	\$52,966	\$335
Loan Fees and Costs	\$5,000	\$32
Initial Deposit to Replace- ment Reserve	\$855,000	\$5,411
Operating Reserve	\$270,000	\$1,709
Tax and Insurance Escrow	\$257,872	\$1,638
Misc. Fees/ Costs	\$20,874	\$132
Developer Fees	\$130,000	\$823
Total Uses	\$3,001,770	\$18,999